

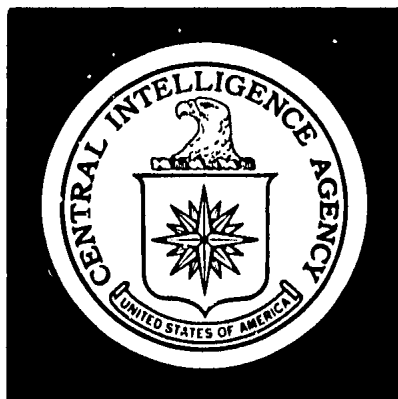
Declassified in Part - 3N TRADE 25V1
Sanitized Copy Approved for
Release 2011/10/31 : 
CIA-RDP85T00875R00160003


Declassified in Part - 
Sanitized Copy Approved for
Release 2011/10/31 : 
CIA-RDP85T00875R00160003


CIR/0616/PM 70-35 Doc/SFR

~~Secret~~

25X1



DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Recent Trends In North Korea's Foreign Trade

~~Secret~~

ER IM 70-35
March 1970

Copy No. 34

WARNING

This document contains information affecting the national defense of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

GROUP 1 Excluded from automatic downgrading and declassification

SECRET

25X1

CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
March 1970

INTELLIGENCE MEMORANDUM

Recent Trends In North Korea's
Foreign Trade

Introduction

North Korea, as does South Korea, depends heavily on imports to supply the machinery and equipment necessary to sustain economic growth. In recent years the level of imports of machinery and equipment by South Korea has greatly surpassed that of North Korea; thus South Korea has come out well ahead in the competitive race for economic growth between the two countries. During the 1960s, South Korea benefited from substantial US aid (both official and private), from Japanese private investment, and from increased foreign exchange earnings accompanying the rapid expansion of exports. After the completion of post-war reconstruction in the early 1960s until 1968, however, North Korea received little or no financial assistance for the purchase of machinery and equipment. This memorandum discusses the developments in North Korea's foreign trade during 1968 and 1969 and the importance of this trade to North Korea's economic development.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Strategic Research.

SECRET

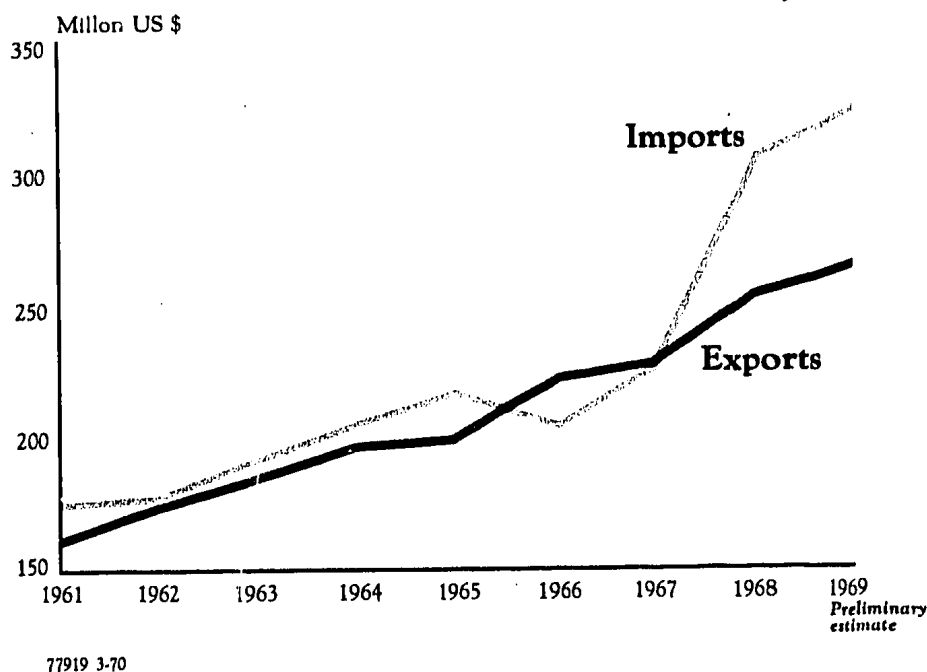
25X1

SECRET

Trade Pattern*

1. After a surprising increase of 24% in 1968, the growth of North Korea's foreign trade returned in 1969 to a more normal rate, probably 5%. Most of the growth in 1968 was the result of an increase of 36% in imports; exports increased by 12%. Thus North Korea registered a trade deficit of \$52 million for the year (see Figure 1). The deficit was

Figure 1

North Korea: Exports and Imports

almost entirely with the USSR and probably reflects the resumption of Soviet economic credits to North Korea. Preliminary estimates for 1969 suggest that the rapid growth during 1968 was not maintained and that North Korea's trade turnover in 1969 amounted to more than \$580 million. Another sizable trade deficit was probably incurred during the year.

2. North Korea continued to depend on other Communist countries for about 80% of its trade.

* Trade data include the value of all goods traded except military hardware supplied under Soviet military grants. Military imports are discussed in paragraph 10.

SECRET

The USSR has reinforced its predominance as North Korea's largest and most important trading partner, whereas trade with Communist China has fallen off since North Korean-Chinese relations began deteriorating in 1966 (see Table 1). North Korean-Chinese trade in 1969 probably remained at about the same level as in 1968. Trade with the USSR continued to increase during 1969 but at a much lower rate than in 1968; the North Korean-Soviet exchange of civilian goods grew, but imports of military equipment fell to a very low level. Trade with Eastern Europe has been relatively constant in recent years, but rose to a new peak in 1968 and maintained this level in 1969. Poland, North Korea's largest East European trading partner, refused to fulfill its import quotas because of the high North Korean prices; and, as a result, the level of trade called for in the 1969 North Korean-Polish trade protocol was not reached.

3. North Korea's trade with the Free World during 1968 increased 38% above the 1967 level and may have increased another 25% during 1969. Because of its close geographic proximity to North Korea, Japan has emerged as North Korea's largest Free World trading partner. In the past, Japanese-North Korean trade has been severely unbalanced in North Korea's favor and P'yongyang has used these foreign exchange earnings to purchase goods from Western Europe and Australia. During 1968, however, North Korea more than tripled its imports from Japan while exports increased by only 15%. North Korea's favorable trade balance with Japan, therefore, fell by \$10.8 million. Consequently, in order to finance the larger overall Free World purchases, North Korea's exports to Western Europe doubled while imports from those countries remained relatively stable. Preliminary estimates of 1969 trade indicate that the expansion in Free World trade continued as North Korea increased its purchases from Western Europe. For example, North Korea imported \$20.9 million worth of goods from France and West Germany through the first half of 1969 alone. Consequently, West European-North Korean trade may have doubled in 1969 and North Korean trade with all Free World countries could have resulted in a deficit of as much as \$20 million. If so, this would be North Korea's largest trade deficit with the Free World, surpassing the 1965 deficit of \$15.1 million. More than half of the estimated 1969 deficit was financed by the export of gold, valued at \$11.3 million, to France in the last quarter of 1969.

SECRET

Table 1

North Korean Foreign Trade
by Country a/

	Million US \$					
	North Korean Exports			North Korean Imports		
	1966	1967	1968	1966	1967	1968
<i>Total</i>	221.4	225.8	253.2	201.5	224.1	305.4
Communist	189.0	188.7	206.3	170.0	191.9	256.4
USSR	92.3	108.0	120.9	85.6	110.3	172.2
Communist China	60.0	50.0	45.0	60.0	50.0	45.0
Eastern Europe <u>b/</u>	28.0	22.0	31.7	21.2	28.3	35.9
Of which:						
Bulgaria	1.6	1.0	0.9	0.9	0.8	0.8
Czechoslovakia	10.1	6.7	7.1	4.1	3.7	3.8
East Germany	3.1	4.7	5.5	4.2	8.0	8.7
Hungary	3.1	1.7	2.2	0.9	1.6	2.6
Poland	6.4	2.5	9.3	6.4	7.8	11.8
Romania	3.1	5.1	6.3	3.9	5.6	7.4
Other Communist <u>c/</u>	8.7	8.7	8.7	3.2	3.3	3.3
Free World	32.4	37.1	46.9	31.6	32.2	49.0
East Asia	26.9	31.5	36.4	6.1	7.1	24.8
Of which:						
Japan	21.6	28.1	32.4	5.3	6.7	21.8
Western Europe	3.6	4.9	9.7	16.7	15.4	15.0
Of which:						
France	d/	0.3	0.7	7.6	9.3	4.0
West Germany	1.1	0.6	2.3	1.2	3.7	8.4
Netherlands	1.0	1.6	2.7	1.5	0.8	0.2
United Kingdom	0.5	1.3	1.4	0.1	0.1	0.3
Other Free World	1.9	0.7	0.8	8.7	9.7	9.2
Of which:						
Australia	0	0	0	3.4	6.5	8.6

a. Because of rounding, components may not add to the totals shown.

b. Including Albania.

c. Including North Vietnam, Mongolia, Cuba, and Yugoslavia.

d. Less than \$50,000.

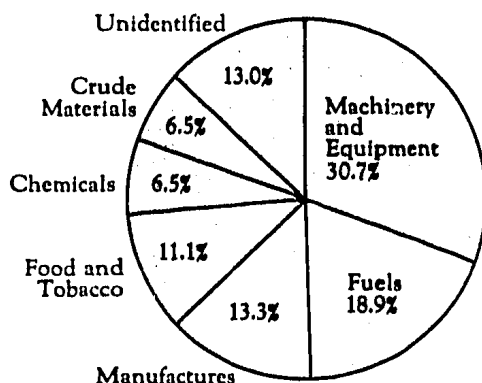
SECRETCommodity Composition

4. North Korea primarily exports semifinished manufactured goods and food products in order to purchase machinery and equipment, fuels, and finished manufactured goods which cannot be domestically produced in sufficient quantities. Although North Korea's exports have grown steadily, the commodity mix does not change significantly from year to year. The commodity composition of imports, however, has been changing as North Korea's requirements for wheat, fuel, and machinery and equipment change. Figure 2 shows the relative commodity composition of North Korea's total imports and exports, and the

Figure 2

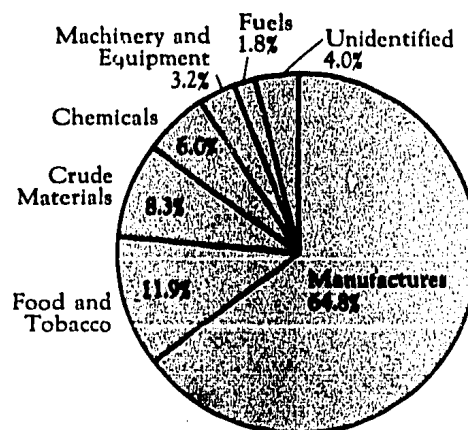
North Korea: Commodity Composition of Trade, 1968

Imports
US \$305 million



77920 3-70

Exports
US \$253 million



Appendix presents a more detailed breakdown of North Korea's trade with the USSR and the Free World during 1967-68.

5. North Korea has only limited control over many of the commodities it must import. For example, grain imports probably fluctuate with the agricultural performance in previous years, and the level of Soviet deliveries of machinery and equipment has apparently been dependent upon Soviet

SECRET

willingness to provide credits. North Korea's imports of grain (mostly wheat and wheat flour) since 1965 from the USSR and Free World countries are shown in Table 2. Grain imports rose in 1966-67

Table 2

North Korean Grain Imports

	Thousand Metric Tons			
	1965	1966	1967	1968
USSR	100.5 <u>a/</u>	117.7	250.7	105.4
Australia	45.7	46.0	92.0	135.0
Canada	0	150.0 <u>b/</u>	0	0
France	67.0	68.1	117.0	0
Other	10.0	120.2	0	0
<i>Total</i>	<i>223.2</i>	<i>502.0</i>	<i>459.7</i>	<i>240.4</i>

a. Corn.

b. These shipments were on Chinese-chartered ships and apparently on Chinese account. No other information is available on Chinese wheat exports to North Korea.

following the relatively poor crop years of 1965 and 1966. A good grain crop during 1967, however, permitted imports to drop by nearly one-half in 1968. However, wheat imports from the USSR are apparently matched with rice exports to that country suggesting a rice-wheat exchange with the North Koreans gaining calories per dollar by the exchange.

6. North Korea also depends on imports to satisfy its requirement for high-quality coking coal and petroleum products. It imported bituminous coal for coke production from Communist China before the Cultural Revolution, but since 1966 China has been unable or unwilling to meet North Korea's requirements. Consequently, North Korea turned to the USSR as an alternative source for coke and coking quality coal. Purchases of these goods increased from virtually nothing during 1966 to \$17.4 million in 1968. The USSR supplied between 350,000 and 450,000 metric tons of petroleum annually during 1961-67 to satisfy North Korea's requirements for

SECRET

these products. But in 1968 the USSR increased its shipments of petroleum products to North Korea to 714,000 metric tons, valued at about \$26 million. Some of the growth in these petroleum imports can be attributed to increased transportation and industrial activity within North Korea. But in addition, North Korea recently has been increasing its petroleum storage facilities; consequently, some of these increased imports have probably been stored for future use.

7. North Korea depends heavily on imports to supply the machinery and equipment necessary to sustain economic growth. Although the USSR is the primary source for these goods, the following tabulation indicates how quickly Free World shipments of technical equipment to North Korea have been increasing in recent years -- nearly tripling from 1967 to 1968:

	<u>Million US \$</u>		
	<u>1966</u>	<u>1967</u>	<u>1968</u>
<i>Total</i>	6.2	6.3	18.2
Japan	0.7	1.1	7.8
Western Europe	5.5	5.2	10.4

Most of the increase during 1968 resulted from large purchases of metalworking machine tools and electrical equipment from Japan and West Germany. In 1969, North Korea's imports of machinery and equipment from Japan increased to \$9.8 million and purchases of these goods from Western Europe may have grown to between \$15 million and \$20 million. Detailed data are insufficient to determine the composition of these goods, but they probably were the same types of equipment purchased in previous years.

8. The tabulation below shows North Korea's continuing dependence on the USSR for its machinery and equipment:

SECRET

SECRET

	<u>Million US \$</u>			
	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
Machinery and equipment	29.2	29.5	20.0	47.2
Of which:				
Complete plants	13.2	17.5	3.1	16.8

These imports more than doubled during 1968 and are well above any previous level. The value of complete plants imported from the USSR recovered to the 1966 level after falling in 1967 to the lowest level since 1961. These plants account for a large part of the total increase in machinery and equipment imported from the USSR, while larger purchases of transportation and electrical power equipment account for most of the remainder.

9. During 1966-67, North Korea and the USSR discussed the resumption of the 1961 Soviet economic aid agreements which called for Soviet assistance in the construction of an oil refinery, a thermoelectric powerplant, and an addition to the Kimchaek Iron and Steel Plant. Construction activity is reportedly progressing at a rapid pace at all of these locations. Deliveries for these projects probably accounted for a large part of the Soviet machinery and equipment shipped to North Korea and for most of the \$51 million trade deficit in 1968. A \$30 million to \$40 million trade deficit could have been generated again during 1969 as a result of the continuing construction of Soviet assisted projects in North Korea.

Military Trade

10. North Korea has imported about \$200 million worth of military equipment from the USSR since 1965 -- \$60 million to \$70 million in 1968 and less than \$5 million in 1969 -- while military deliveries from Communist China have amounted to about \$15 million over the same period. Soviet deliveries include MIG-21 jet fighters, SA-2 surface-to-air missile equipment, W-class submarines, Osa-class and Komar-class guided missile patrol boats, and ground force weapons and materials. It is unclear

SECRET

SECRET

to what extent these Soviet deliveries were financed under credit, grant, or current account. However, an analysis of the residual* in Soviet exports to North Korea, as derived from the Soviet trade statistics, allows some generalizations about the method of payment for military goods. During 1964-67 the residual averaged about \$8 million each year, but grew to \$24 million in 1968. This increase, together with the large trade deficit built up with the USSR, suggests that as much as \$20 million worth of military equipment may have been imported in 1968 from the USSR under credit or on current account. If the analysis of the residual is correct, the remaining Soviet military equipment received by North Korea during 1968 was probably financed by grants. Known military shipments in 1969 consisted of two Komer-class guided missile boats and some ground equipment; the values of this equipment are so small that the method of payment cannot be determined.

Impact on the Economy

11. North Korea's seven-year plan, which was originally scheduled to end in 1967, will finally draw to a close in 1970, and the North Korean leaders have announced a new five-year plan for 1971-75. Consequently, during 1970, the prospects for increased trade are bright as North Korea steps up purchases of machinery and equipment to complete the current plan and to prepare for the new plan. The level of North Korea's trade, however, will still be far below that of South Korea's, in part because P'yongyang exports much less than the South and also is unable to obtain medium-term and long-term credits from the countries of the Free World. In 1968, South Korea's exports were valued at \$455 million and imports at \$1,463 million, of which goods under credit agreement totaled \$425 million -- more than eight times the credit received by the North. The relative benefits derived from imports by North Korea and South Korea are perhaps better shown by the respective receipts of machinery

* *The residual is the difference between the value of total Soviet exports reported and the sum of the values of the commodities reported. This category of unidentified commodities is generally believed to contain Soviet military shipments to other countries under credit or current account. Deliveries under grants are not included in the trade statistics.*

SECRET

and equipment. During 1968, South Korean imports of machinery and equipment amounted to \$533 million, more than five and one-half times that of North Korea, thus increasing capital stock and productive capacity more rapidly than in the North. This contrast indicates one major reason why the North Korean economy is not likely to match the recent economic growth of South Korea, which has been two to three times that of the North since 1964.

Conclusions

12. North Korea's foreign trade grew by a surprising 24% during 1968 -- from \$450 million to \$559 million -- but gains leveled off to a more usual rate of probably 5% during 1969 (increasing to more than \$580 million). The rapid growth during 1968 was made possible by a trade deficit of \$51 million with the USSR, which suggests the first Soviet economic credit to North Korea since the post-Korean War reconstruction was completed in the early 1960s.

13. Thus North Korea was able in 1968 to expand purchases of complete plants and other equipment from the USSR and probably has maintained the 1968 level of such imports in 1969. Trade with countries of the Free World increased from \$69 million in 1967 to \$96 million in 1968 and perhaps reached \$120 million during 1969. While still secondary to Soviet deliveries, machinery and equipment from Japan and Western Europe are playing an increasingly important role in North Korea's economic development.

14. Although North Korea's imports of machinery and equipment are at a higher level than they were prior to 1968, they are still only 15% to 20% of the level of these imports by South Korea. This comparison illustrates why the recent growth of the South Korean economy has been two to three times that of North Korea. The relative importance of North Korea's major trading partners and the changes in their trade during 1967-69 are indicated in the following tabulation:

SECRET

	<u>Million US \$</u>			
	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>Preliminary 1969</u>
USSR	178	218	293	300
Eastern Europe	49	50	68	65
Communist China	120	100	90	90
Free World	64	69	96	120

SECRET

APPENDIX

Commodity Composition of North Korean Trade
with the Free World and the USSR

	Thousand US \$			
	1967		1968	
	<u>Free World</u>	<u>USSR</u>	<u>Free World</u>	<u>USSR</u>
<i>Total imports</i>	<i>32,183</i>	<i>110,332</i>	<i>49,039</i>	<i>172,222</i>
Foodstuffs	<u>14,279</u>	<u>27,992</u>	<u>,385</u>	<u>16,052</u>
Of which:				
Wheat and wheat flour	14,245	24,772	8,158	8,233
Refined sugar	0	3,022	0	7,589
Crude materials, fuels, and edible oils	<u>1,630</u>	<u>12,474</u>	<u>6,026</u>	<u>16,153</u>
Of which:				
Cotton	924	8,180	0	10,683
Vegetable oils	123	1,828	254	2,810
Petroleum products and fuels	<u>92</u>	<u>19,340</u>	<u>182</u>	<u>43,440</u>
Of which:				
Petroleum products	0	16,784	171	25,528
Coke	0	2,282	0	4,527
Coal (bituminous)	0	274	0	12,879

SECRET
- 13 -

SECRET

	Thousand US \$			
	1967		1968	
	Free World	USSR	Free World	USSR
Chemicals	<u>2,413</u>	<u>1,925</u>	<u>5,509</u>	<u>5,423</u>
Of which:				
Fertilizers	812	0	0	1,118
Organic chemicals	812	0	1,126	0
Medicines and pharmaceuticals	297	467	299	917
Manufactured goods	<u>3,614</u>	<u>19,989</u>	<u>9,729</u>	<u>20,131</u>
Of which:				
Rubber tires	107	5,454	251	5,409
Textiles and synthetic fibers	1,454	879	1,305	1,072
Ferroalloys	443	2,907	390	2,992
Iron and steel products	391	3,830	2,276	3,296
Aluminum	11	1,131	768	1,137
Timber products	0	1,154	644	1,832
Machinery and equipment <u>a/</u>	<u>6,298</u>	<u>19,969</u>	<u>18,205</u>	<u>47,217</u>
Of which:				
Transportation equipment	3,187	6,350	1,750	8,942
Nonelectric machinery and equipment	2,006	7,700	3,335	23,243
Electric machinery and equipment	883	2,549	5,450	6,186
Unspecified machinery and equipment	0	2,898	0	5,050
Metalworking machine tools	222	472	7,670	3,796
Unidentified	<u>3,857</u>	<u>8,643</u>	<u>1,003</u>	<u>23,806</u>

- 14 -
SECRET

SECRET

	Thousand US \$			
	1967		1968	
	Free World	USSR	Free World	USSR
<i>Total exports</i>	<i>37,078</i>	<i>108,000</i>	<i>46,914</i>	<i>120,888</i>
Foodstuffs, tobacco, and beverages	<u>2,433</u>	<u>23,144</u>	<u>2,737</u>	<u>19,114</u>
Of which:				
Fish	1,338	0	1,938	0
Rice	147	17,354	0	8,237
Corn	374	0	419	0
Apples	72	2,768	0	6,169
Tobacco	92	1,398	0	4,080
Crude materials and edible oils	<u>9,269</u>	<u>3,036</u>	<u>11,770</u>	<u>4,325</u>
Of which:				
Silk	1,508	0	2,248	0
Iron ore	5,258	0	5,775	0
Other minerals and ores	2,074	2,803	875	4,303
Petroleum products and fuels	<u>1,370</u>	<u>0</u>	<u>1,419</u>	<u>0</u>
Of which:				
Coal	1,370	0	1,419	0
Chemicals	<u>98</u>	<u>3,070</u>	<u>363</u>	<u>5,316</u>
Of which:				
Calcium carbide	0	2,272	294	1,516

- 15 -
SECRET

SECRET

Thousand US \$				
	1967		1968	
	Free World	USSR	Free World	USSR
Manufactures	<u>23,106</u>	<u>76,010</u>	<u>29,584</u>	<u>85,088</u>
Of which:				
Pig iron	9,549	3,907	12,574	4,470
Rolled steel products	5,571	40,853	3,623	40,661
Zinc	4,596	1,938	6,433	1,136
Lead	305	5,117	2,122	5,777
Other nonferrous metals	2,519	175	2,912	127
Magnesite powder	0	8,937	37	11,890
Cement	0	3,716	0	4,307
Other construction materials	0	2,405	0	4,112
Clothing	0	3,671	0	6,321
Machinery and equipment	187	510	0	2,654
Unidentified	<u>615</u>	<u>2,230</u>	<u>1,021</u>	<u>4,391</u>

- 16 -
SECRET

SECRET

25X1